For well over a decade, the leaders of the Chinese Communist Party (CCP) have understood that excess lending by China’s state-directed banks to unproductive, state-linked companies could spark a future financial crisis. CCP General Secretary Xi Jinping has made the fight against excess leverage a centerpiece of his economic policy (China Brief, January 12), scoring notable initial successes.

The next steps will be harder. The PRC has accumulated so much debt within its economy, spread through a vast, constantly shifting constellation of intricately interlinked counterparties, that it may be impossible to know which thread, when pulled on, could cause things to unravel. To prevent panics, Beijing will need good information on where risks lie. But this information is inherently difficult to acquire, since the banks, companies, and local governments most in debt have the strongest incentive to hide the truth. Beijing has worked hard to address this problem, including widespread use of so-called ‘credit committees’.

But even these measures may not solve the more fundamental problem: that the PRC’s financial system is configured to direct money to companies and individuals with political connections, rather than those with entrepreneurial merit.

Addressing the Debt Emergency
The PRC has a debt emergency. In March, the Bank of International Settlements (BIS), a Switzerland-based organization sometimes referred to as the “central bank for central banks”, singled out the PRC, saying that its debt-to-GDP and debt service ratios placed it at high risk for a banking crisis (Bank of International Settlements, March 11). The CCP leadership has long recognized this problem; officials from Xi Jinping down have noted the problems that “overcapacity, bad loans, local government debt, a property bubble and illegal financing” could pose to future economic growth (People’s Daily, May 9 2016). Xi has called preventing and defusing financial risk one of the PRC’s three toughest, most important battles (Xinhua, April 2).

Conceptually, the solution is simple: Slow the pace of lending growth, cut capacity in inefficient legacy industries, and redirect lending into more efficient parts of the economy. Those are exactly the policies that Beijing has pursued. For example, following drastic regulatory intervention, growth in the sales of so-called ‘wealth management products’—one of the key ways PRC banks had channeled money into real estate and inefficient heavy industries—slowed to 1.69% in 2017, from 23.63% the year prior (China Banking News, February 7). Growth in total social financing—a broad measure of the amount of credit supplied to the real economy—has reversed after large increases in 1H 2017. BIS statistics also indicate that non-financial sector debt as a percentage of GDP peaked in Q3 2017, and began to decline thereafter (Bank of International Settlements).

At the same time, Xi’s team has targeted overcapacity in industries such as steel and concrete through their “supply-side structural reform” program, and tried to encourage banks to lend more to small and medium-sized businesses (Trivium China, April 16). The leadership has claimed success in cutting overcapacity. For example, the northern province of Hebei, home to much of China’s steel production, claims it scrapped 69.93 million tons worth of excess steel production capacity from 2013 to 2017 (Xinhua, January 25), an amount equivalent to approximately
8.4% of China’s total production for 2017. (By comparison, Japan, the world’s second largest producer of steel, manufactured 104.8 million tons of steel in total in 2017 [1].)

The Price of Interconnectedness

But these successes have also highlighted the fragility created by a long dependence on easy money, heavy industry, and construction. For example, as deleveraging has begun to bite, China’s largest property developers have seen their stock values plummet (Wall Street Journal, June 28). Developers’ woes underscore the fact that the deleveraging campaign is, fundamentally, a process that creates winners and losers. For Beijing, the process would ideally direct capital to firms that will use it more efficiently, while avoiding panics as the assets of the “losers” are unwound.

But China’s high degree of interlending makes panics difficult to avoid. Rather than putting borrowed money to productive use, too many state-owned enterprises (SOEs) and financial firms have become accustomed to borrowing only to re-lend the money to someone else [2]. Private businesses have their own version of the problem: Because China’s banks prefer to lend to SOEs, private companies often band together in lending syndicates to borrow, lend, and guarantee one another’s debts.

In both cases, interconnectedness can conceal sources of underlying risk, and increase the likelihood that one firm’s failure can sink many lenders [3]. Such interconnectedness has already resulted in small, localized panics, despite the fact that deleveraging has, to date, been relatively mild (SCMP, April 9 2017; Reuters, August 20, 2015). In each case, the companies involved were not large, and local governments used their influence over area companies and banks to call a halt to any potential panic.

If a larger company, one with a national footprint, were to confront a similar situation, Beijing would probably use the same playbook to tamp down any broader economic repercussions. But Zhongnanhai would prefer to avoid such panics in the first place. That is why, in the past two years, it has sought to vastly increase the amount of information available to central and local governments on firms’ borrowing and lending behaviors, so disaster can be headed off before it strikes.

A Clearer Picture?

One of the most important ways Beijing has sought to improve the information it receives is by forcing banks to be more transparent about their lending activities. For example, a rule issued last year by China’s top banking regulator required banks to report the underlying assets and liabilities of their wealth management products on a weekly basis (Shenzhen Daily, May 17 2017). This was but one of a slew of similar measures that targeted China’s “shadow banking” sector, a vast pool of lending by non-banking companies that private companies rely on for funding.

Even more ambitious than new regulations is the wide deployment of so-called ‘credit committees’. Although such committees—which bring together a firm’s creditors to discuss how to manage its obligations—are common outside of China, they are typically only used after a firm encounters borrowing problems. China has begun to employ them in a preemptive fashion, to get a full picture of firms’ liabilities, and to make it more difficult for overextended
companies to play creditors off one another. China had 12,836 such committees at the end of 2017. That number is probably much higher now (Macropolo, June 25) [4].

Beating the System

The current deleveraging campaign, although more determined than previous attempts, is far from the first attempt to fix China’s debt problem. And while credit committees have expanded the state’s insight into PRC business activities to an unprecedented degree, even they may not get Beijing the information it needs to direct the economy where it wants to go. There are already signs that the current deleveraging campaign is having unwanted consequences.

Although one of the stated goals of the campaign is to level the playing field for dynamic, innovative private businesses, the opposite appears to be happening. Choking off shadow lending has hit private firms much harder than the state sector (Nikkei Asia Review, July 6). While profits have increased for SOEs in the industrial sector, those of private businesses in the same sector have fallen precipitously (Yiqin Fu, July 5).

Credit committees and regulatory crackdowns might help Beijing to forestall panics. But, at least so far, they do not appear to have been effective in solving a more fundamental problem: politically connected firms’ preferential access to credit. This problem is, arguably, inherent to the PRC’s political economy. And as long as it remains, it is difficult to see how the deleveraging campaign will succeed.

Matt Schrader is the editor of the Jamestown China Brief. Follow him on Twitter at @tombschrader.

Notes

[1] The source for these statistics is the World Steel Association:

[2] Since such re-lending by SOEs is illegal in China, proof of its existence is typically anecdotal rather than empirical. However, academics using firm-level data have been able to demonstrate circumstantially that re-lending by SOEs is widespread. See, for example, Du, Li, and Wang (2016).

[3] It is worth noting that complicated borrowing structures that obscured underlying sources of liability—so-called “collateralized debt obligations”—were one of the key contributors to the United States’ 2008 financial crisis.

[4] China has not yet reported the number of credit committees created nationally in 2017. But in those instances where province-level data is available, figures show a substantial increase in the number of credit committees for the first six months of 2018. For more, see the Macro Polo article linked above.

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Hard Edges of China’s Soft Power Projection Meeting Increasing Resistance

By Willy Lam

The hard edges of China’s global soft power projection have been put under the microscope in a June 19 White House document entitled How China’s Economic Aggression Threatens the Technologies and Intellectual Property of
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the United States and the World. The 35-page statement, attributed to White House economic adviser Peter Navarro, accuses the Chinese party-and-state apparatus of using spies, hackers, state-owned enterprises, front companies, as well as ethnic Chinese scholars and students resident in the US to “threaten the technologies and intellectual property of the United States and the world.” The paper asserts that the People’s Liberation Army and state-security units have dispatched personnel (including scholars and students) numbering in the tens of thousands to the US and other countries so as to “access the crown jewels of American technology and intellectual property” (Apple Daily [Hong Kong], June 21; The White House, June 19).

Along with numerous reports in the Western media about PRC efforts to buy cultural and political influence in the US, the EU, and Australia, the White House document speaks to increasing awareness of the hard edges of Chinese soft power projection: namely, gathering intelligence and pilfering IPR so as to speed up China’s transition to a full-fledged superpower. Espionage, illegal IPR acquisition, and influence peddling have become part and parcel of China’s soft power push. The result has been an unprecedented pushback from Western nations.

In theory, intelligence gathering should be distinguished from soft power projection, which is often defined as the practice of amplifying and spreading the attractive aspects of a country’s cultural quintessence to the rest of the world. In practice, this is not always the case. Well-known Sinologist David Shambaugh estimates that the Party-state apparatus spends about $10 billion annually on soft power projection (Asia Times, March 3). This raft of initiatives and projects include many activities that fall outside the traditional rubric of soft power, among them: sending 300,000 students and scholars to study or do research in the US; recruiting some of these students/scholars as “nonconventional gatherers” of intelligence; copious donations by PRC multinational corporations to influential politicians and universities in the West; obtaining the IPR of Western tech firms through illegal means; buying supplements in popular Western newspapers and magazines; vastly expanding the foreign-language services of PRC state television and news agencies; and stopping “anti-Chinese” books and videos from being published overseas (China Digital Times, January 7; South China Morning Post, July 31, 2017.)

The United States and Australia have been at the forefront of pushback against these practices. From the beginning of its term the Trump White House has singled out Chinese multinationals—especially high-tech firms—accused of stealing IPR belonging to US tech companies. During the past year, however, Washington has also begun to address potential threats to American national security from groups such as PRC students and businesspeople. In Congressional testimony earlier this year, FBI Director Christopher Wray said his agency believed that a portion of PRC students and scholars in the United States could be functioning as spies. He characterized naivete in American universities about the intelligence risk of Chinese “nontraditional collectors [of intelligence], especially in the academic setting” as widespread, adding that the PRC favored a “whole-of-society” approach to espionage (South China Morning Post, February 14; TheDailyBeast.com, February 13). Concerns about student spies and the relatively tight supervision of PRC students exercised by Chinese missions in the US have led the White House to consider curtailing the number of visas offered to PRC students specializing in the sciences, technology, engineering and mathematics. As a first step, the State Department has begun to restrict the length of renewable visa terms offered to PRC graduate students studying cutting-edge technologies like AI, robotics, and DNA engineering (South China Morning Post, May 30; Insidehighered.com, May 30).

The spotlight has also been thrown on donations made by PRC- or US-based businesses and organizations associated with the United Front Work Department, which supervises the country’s soft power projection (China Brief, April 24). Last January, the University of Texas at Austin refused a donation from the China United States Exchange Foundation (CUSEF). CUSEF is headed by Tung Chee-hwa, former Chief Executive of Hong Kong and current Vice-Chairman of the Chinese People’s Political Consultative Conference (CPPCC). While supposedly only a government consultative body, the CPPCC, which is headed by Politburo Standing Committee member Wang Yang, has traditionally played a major role in the party-state’s global united front work (Radio Free Asia, January 19;
Washington Post, January 14). Moreover, a bipartisan group of 26 Congressional representatives have asked Secretary of Education Betsy DeVos to investigate whether IT giant Huawei Corporation illegally obtained IPR through its donations to scientific projects and foundations in a host of American universities (Voice of America, June 20; Sfgate.com, June 20).

Canberra has also taken extraordinary measures to curb PRC lobbying—and PRC soft power projection in general—since the 2015 release of a documentary on PRC influence-peddling in Australia, produced by the Fairfax media group with the help of the Australian Security Intelligence Organization (ASIO), Australia’s equivalent of the US FBI. The piece exposed how PRC-born business moguls sought to influence Australia politics by making hefty donations to politicians from major parties. These businessmen, who in many cases had become naturalized Australian citizens, also supported pro-Beijing Chinese newspapers and the research of PRC-friendly academics (ABC.net.au, June 5, 2017; Sydney Morning Herald, June 5, 2017).

The exposure from the Fairfax report did not put an end to the PRC’s efforts to shape Australian discourse on China. In early June, officials from the PRC consulate in Sydney tried to kill a segment of a popular news magazine. The segment reported on PRC attempts to build a dual-use port on Vanuatu through loans that would be difficult for Vanuatu to repay. Saixian Cao, the PRC embassy’s head of media affairs, reportedly yelled over the phone at 60 Minutes producer Kirsty Thomson, telling her, “there must be no more misconduct in the future.” The program rejected Cao’s demand (Businessinsider.com, June 21; Radio Free Asia, June 20).

Canberra has struck back ferociously. On June 28, the Australian government passed a National Security Legislation Amendment (Espionage and Foreign Interference) Bill, which places strong restrictions on foreign agents, including companies, government institutions and individuals, that would threaten Australian national security through donations, espionage and other forms of undue foreign interference (Sydney Morning Herald, June 7; Attorneygeneral.gov.au, March 6). The law was passed despite the fact that the PRC remains Australia’s largest trading partner, and the PRC government has responded by slow-walking visa applications for senior Australian ministers wishing to visit the PRC.

What has perhaps most alienated Western countries is the readiness with which PRC authorities have openly violated international law by dispatching their state security agents to harass—or even kidnap—both foreign and PRC-born critics of the CCP. Early this year, the home of New Zealand academic Anne-Marie Brady was broken into and some of her possessions stolen, including cell phones and computers. The burglary of her home came two months after a similar break-in in her office. An authority on China’s united-front and propaganda departments, Brady published in 2017 a monograph on how Beijing is using “soft power” to influence foreign governments and silence its critics. Brady noted that in 2015, Chinese embassy officials had tried to put pressure on the University of Canterbury, her employer, to stop her research on the CCP (Stuff.co.nz, February 16; Radionz.co.nz, February 16). The harassment of Brady followed in the wake of the 2015 kidnapping in Pattaya, Thailand, of Hong Kong-based publisher Gui Minhai, a PRC-born Swedish citizen, by agents from PRC security services. After his release from jail late last year, police repeatedly prevented PRC-based Swedish diplomats from helping Gui leave the country (Hong Kong Economic Times, January 23; Radio Free Asia, January 22).

A recent report by the New York-based Council on Foreign Policy pointed out that, while China’s image has improved in developing countries, the effectiveness of “China’s soft power campaign is limited by the dissonance between the image that China aspires to project and the country’s actions.” (CFR.org, February 19). After all, the aspects of Chinese culture frequently cited by CCP General Secretary Xi Jinping—a melange of Confucian norms and the “core values of socialism with Chinese characteristics—do not jibe well with the image projected by the activities of PRC diplomats and state security agents posted abroad.
Yet perhaps the most important factor behind the diminution of PRC soft power is that the Xi administration’s aggressive hard-power projection has raised legitimate questions about the country’s peaceful intent. Take for example, Xi’s ambitious Belt and Road Initiative, billed as a Chinese way to help the world attain a “community of common destiny.” According to an open letter written by 27 EU ambassadors in Beijing, 89 percent of BRI projects are controlled by Chinese conglomerates, rather than carried out in partnership with local stakeholders. The senior diplomats complained that the BRI “runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies” (Handelsblatt.com, April 17).

President Xi’s trademark liangjian (“brandishing the sword”) diplomacy has been more brazen, and more rattling, when deployed against China’s non-Western neighbors in the Indo-Pacific Region. In the past few months, sophisticated weapons, including nuclear-capable, long-range bombers have been deployed to South China Sea islets whose sovereignty is disputed by a host of Southeast Asian countries (Nikkei Asian Review, June 13; Asean.thenewslens.com, May 21). In Vietnam, a draft law that would create three special economic zones where investors from China and other countries could lease land up to 99 years elicited the most vehement anti-Chinese demonstrations since 2014. Protestors were worried that the statute would favor what they perceived to be exploitative Chinese corporations (BBC Chinese Service, June 11; Radio Free Asia, June 11). The unrest in Vietnam serves to underscore that no amount of well-meaning soft power projection will buy the PRC friendship as long as Xi and other top leaders continue to seek superpower status through “sword-brandishing” methods incompatible with global norms.

Dr. Willy Wo-Lap Lam is a Senior Fellow at The Jamestown Foundation. He is an Adjunct Professor at the Center for China Studies, the History Department and the Program of Master’s in Global Political Economy at the Chinese University of Hong Kong. He is the author of five books on China, including “Chinese Politics in the Era of Xi Jinping (Routledge 2015).”

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**Hedging Against the Unknown: PRC Media Coverage of the Sino-US Trade War**

*By Xiaolin Duan*

US President Donald Trump’s imposition of tariffs on foreign washing machines and solar products in January touched off a cycle of trade escalations between the United States and China, with immense domestic pressure on both sides to avoid appearing weak. A temporary ceasefire was declared in late May (Xinhua.net, May 25), but it did not last long. As of this writing, a trade war has begun in earnest, with both sides imposing significant tariffs on the other on July 5.

As tensions have escalated, Beijing has imposed strict controls on domestic media, limiting commentary to the most authoritative state-linked outlets, making them important sources for understanding Beijing’s strategic calculus. One prominent outlet, the *Global Times* (April 4) has also argued that it is necessary for PRC media to be actively involved in the trade dispute, to interpret China’s perspective for domestic and international audiences, and shape discourse favorably. A review of trade coverage the past half year can yield important insights, among them that the trade war took the PRC leadership by surprise, and that they have sought to hedge against a trade war’s downside effects by depicting national unity as key to victory in an uncertain situation.

**Unexpected Conflict**

Despite US President Donald Trump’s repeatedly endorsement of trade protectionism during his campaign, Beijing did not expect a large-scale trade war with Washington. Mainstream PRC media outlets refrained from harsh
language in their coverage, for the most part, prior to the escalation of trade frictions in late March. Simply put, Beijing believed that bilateral trade, investment and commercial opportunities are ‘too big to fail’ (see, for example, Global Times, May 8).

Bai Ming, an expert with the PRC Ministry of Commerce, argued that China should explain to American businesses and the American people that trade with China is good for the United States, in the hopes that persuasion could head off a trade war (People’s Daily, April 23). Zhang Yansheng, chief economist at the China Center for International Economic Exchanges—a consultancy affiliated with the National Development and Reform Commission—wrote, “The trade imbalance is caused by the trade and economic structures of the two countries...The larger picture in Sino-American economic ties is cooperation instead of conflict, dialogue instead of trade war.” He also argued the China could shift its economic strategy by increasing imports, and that it might be possible to mitigate problems caused by imbalances in the trade relationship through increased purchases of American agricultural products, as well as oil and gas (Global Times, March 2; People’s Daily Overseas Edition, March 24; Global Times, March 30).

**Exaggerated Advantages**

The trade war has also surprised Beijing because of its confidence the United States would not start a conflict in which it would find itself at a disadvantage. This confidence stemmed from several aspects perceived to be favorable to China (People.cn, April 4; Xinhua, April 11).

First, China is the world’s largest manufacturing nation, the world’s largest trading nation, the largest holder of foreign reserves, and—for the moment—the second largest economy and consumer market behind the US. Since the global financial crisis, it has also been the largest driver of global economic growth (People’s Daily Overseas Edition, April 10; Global Times, March 25; People.com, April 4). Compared with Japan and Korea, both of whom were more willing to bend to American pressure on trade, China is more than capable of resisting. Despite a supposed domestic economic slowdown, Beijing took pains to emphasize that the PRC economy continued to grow at an impressive 6.8% in the first quarter of 2018. Growth in consumption accounted for 77.8% of the growth during the same period, possibly marking a fundamental shift in China’s growth mechanisms (People’s Daily Overseas Edition, April 23). A March 26 Global Times editorial observed that America’s supposed economic strengths had been exaggerated, and that the US was actually a “paper tiger” (Global Times, March 26).

Second, Beijing believed the US needs China more than China needs the US. In an April 12 article, People’s Daily Overseas Edition explained that American companies need China’s market, that China’s huge foreign currency reserves give it an advantage in a trade war, that America’s new trade barriers may offend other members of the WTO, and that external pressure will only accelerate the pace of China’s economic reform and growth. Strategic analyst Wang Xianghui, a PLA senior colonel and author of the popular book “Unrestricted Warfare”, argued that America cannot afford the catastrophic consequences it would invite if China decided to leave the dollar system and the America market. He added, “the costs [of doing so] for China’s development would be temporary, but it could put a complete end to the America-style globalization system and America’s global hegemony” (Global Times, April 10).

Third, domestic problems and international constraints would weaken the US in any such conflict. At home, the trade war caused immense market uncertainty, with major stock indices and tech stocks both seeing large, rapid declines (People’s Daily, March 24). U.S. farmers and liberalists would pressure the Trump administration to avoid a trade war of attrition with China (Global Times, April 9; People’s Daily, April 7). Nor is there much welcome for US trade protectionism among its European and Asian allies (People’s Daily Overseas Edition, March 26).

PRC media coverage has evinced a belief that China can claim the high moral ground as a defender of a liberal, open and multilateral economic order, in sharp contrast to Trump’s protectionism (People’s Daily, March 27). Chinese President Xi Jinping’s defense of globalization at the Global Economic Forum at Davos in 2017 was cited as proof of
worldwide recognition of China’s leading position in the global order (Seeking Truth, May 15). Liu Xiaoming, the PRC ambassador to the United Kingdom, wrote in the Financial Times that, “Europe and China must stand together against protectionism,” indicating China’s confidence that it would find wide support in its trade war with America (Financial Times, March 28).

A Feast for Nationalist Propagandists

Possibly due to the perception that China could defeat the US in any trade war, much of the coverage in domestic media has taken a hard-edged nationalistic tone, using harsh words to mobilize domestic support and signal China’s unshakable resolve.

Some Chinese analysts argued that the US wants Beijing to sign a new Plaza Accord. The Accord, which Japan ratified in the 1980s under pressure from Washington, is believed by many in China to have caused Japan’s subsequent economic stagnation and recession. An April 7 Global Times editorial wrote, “Utilizing the [same kind of] national will demonstrated in the Korean War, China can defeat the Trump administration in a trade war...China suffered from its decisions to intervene [in the Korean War] temporarily, but...defeated Washington’s strategic pride and won America’s respect.” The editorial added, “Let America realize the special ability of the Chinese [people] to unite against foreign economic hegemony...Let the two regimes confront in a tit-for-tat trade war, and find out whether US or China can resist the pressure, and further develop.” A People’s Daily editorial published on the same day said, “Since America provoked the trade war, China does not have to restrain itself. It must make American pay for its misbehavior, and teach a lesson to those who show little respect for the rules of trade, and are unrealistically expecting others to give in.”

The nationalistic propaganda came to an abrupt end after the two sides reached what appeared to be an agreement on May 19. PRC official media said the agreement was a win-win, that both sides should value it, and that they should continue to cooperate in a spirit of dialogue and negotiation (People’s Daily, May 21). When President Trump announced he would proceed with tariffs on Chinese products on May 29, several days before US Secretary of Commerce Wilbur Ross was to visit the PRC for trade talks, Beijing framed Trump’s sudden policy shifts as an attempt to generate bargaining leverage, and accused America of damaging its own credibility, (People’s Daily, May 31). Trump’s announcement, however, was largely downplayed in mass media. On June 15, after President Trump announced plans to add tariffs on Chinese goods, Beijing responded with short statements from its Commerce and Foreign Affairs ministries, and the announcement of new measures to attract foreign investment by the States Council (June 15). The low-key reaction may indicate a willingness to de-escalate a trade war if possible.

Uncertain Strategic Impacts

The entire debate has also been framed by uncertainty on the potential implications of a trade war for China’s grand strategy. It is widely believed inside the PRC that the Trump administration is targeting China’s “Made in China 2025” initiative (Study Times, May 18). On April 7, People.cn wrote that the US was afraid that China could build a cutting-edge technology industry, and was hoping to delay “Made in China 2025” to maintain its hegemony in world trade and technology. Another piece claimed the trade war was only a cover for US attempts to down China’s technological innovation and development, and to ultimately contain its rise (People.cn, April 8). How should the trade war shape China’s strategy? Views differ on this question.

Wang Xianghui has argued that China’s prior development was based on engagement with the American-led global system. He has compared the two countries to two hedgehogs in a cold winter, trying to stay close enough to stay warm without hurting one another. Now, though, he argues that it is time for China to begin distancing itself from the
US, lower its expectations, pay more attention to its domestic market, and cooperate with other countries to reduce China’s dependency on the US market (Global Times, April 10).

Some observers have called for a revised PRC foreign policy in the face of mounting US concern and resistance. Wu Xinbo, Director of the American Studies Center at Fudan University, believes the US has abandoned its previous strategy of engagement vis a vis China, and has adopted a more pragmatic approach characterized by tense competition in economics, technology and security. He believes the US will cooperate closely with regional allies to balance, deter and even contain China. He has suggested China should avoid a US-Soviet style cold war with America, and be willing to surrender short-term interests for the sake of long-term development where appropriate (Global Times, April 24). Ruan Zongze, vice director at China Institute of International Studies, believes China should stick to Deng Xiaoping’s guiding principle of “hide your strength and bide your time”, and avoid confronting the US directly.

Conclusion

Just as in the United States, there is no clear consensus in China about the nature or direction of US-China trade frictions. The shape of future developments will depend on which view prevails. If Beijing concludes that the US is containing China, it may be less willing to cooperate with the US on regional issues, and may move to enhance relations with other major powers and expand its presence in the developing world. Strategic distrust and misunderstandings between US and China may complicate the situation, making a tit-for-tat conflict more likely. At the same time, Beijing might opt to keep a low profile, avoiding direct confrontation with the US to buy more time for development. Neither approach, however, can guarantee a lasting accord between the two countries.

Duan Xiaolin received his Ph.D in Public Policy from National University of Singapore, and now works as Assistant Professor in International Relations at King Fahd University of Petroleum and Minerals.

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Global Religion and the United Front: The Case of Mongolia

By Miguel Martin

’Sinified’ religion has a role to play in Xi’s elevation of the United Front (UF) into a foreign policy tool. Informed by Qing imperial policy, CCP voices highlight the potential of state-managed Buddhism to advance PRC policy in Mongolia, where it has become a salient component of UF activity. Attention has been paid to the ongoing Jebtsundamba Khutugtu succession process, a sensitive issue, as it is perceived as a challenge the CCP’s neo-imperial reincarnation management system, which will undergo a major test when it comes to the selection of the next Dalai Lama reincarnation.

Meanwhile, state-led interactions with Mongolian monasteries, some unreported even in Mongolia, reveal attempts to cultivate senior lamas and exploit internal divisions to counter Dharamsala’s influence and earn global Buddhist ‘discourse power’. Although the potential of religion as an influence tool in Mongolia is limited, the tactics used illustrate the Xiist expansion of UF work beyond its traditional domestic-diasporic domain.

Sinified Buddhism Goes Global

CCP religious policy involves both repression and co-option. Co-opting religion and other non-Party forces, both inside and outside China, is the job of the United Front Work Department (UFWD). Although UF tactics are a Leninist
creation, prescribed to the CCP in the 1920s by Soviet advisors, the system the UFWD uses to manage religion is a post-Comintern innovation whose closest parallel is in North Korea. To survive as “patriotic” tools of the Party, imported religions such as Christianity and Buddhism must undergo “Sinification” (中国化), a demand stressed under Xi (CPC News, April 2016; People's Daily, October 2016). The maxim “love the country, love religion” (爱国爱教) summarises what the Party expects of religious believers.

Since taking office, CCP General Secretary Xi Jinping has dramatically expanded the scope and importance of the UFWD’s role (China Brief, April 2018). Two characteristics of this unprecedented expansion of the UF system affect international religious policy. The first was the absorption of the State Administration of Religious Affairs (SARA, 国家宗教事务局), a government body whose duties included the execution of PRC religious policy, into the UFWD. The China Buddhist Association (CBA, 中国佛教协会), previously overseen by SARA, is thus now officially placed under the CCP. A second characteristic is the global expansion of the scope of UF work, evidenced by the recent use of UF entities to influence mainstream societies abroad. Previously, co-option of foreign religious organizations tended to focus on Overseas Chinese churches (To, 2009, p. 151) and Tibetans abroad (Journal of Current Chinese Affairs, 2012). However, efforts to create a more central role for the PRC in international Buddhist organizations, which once focused on Taiwan, have now taken a more global turn, at times placing the CCP in competition with India (Carnegie India, March 2017).

A visible figure in this global Buddhist push is Yinshun (印顺), a vice president of the CBA and president of its Hainan chapter. Yinshun is the abbot of three temples: two in southern China, and one in Lumbini, Buddha’s birthplace in Nepal (Fenghuang Fojiao, October 2017; Caijing, December 2017) [1]. Yinshun also heads the Nanhai Academy of Buddhism. The academy, which opened in the southern PRC city of Sanya in 2017 to provide training in Chinese, Tibetan and Theravāda Buddhism, immediately eclipsed a long-planned (and long-delayed) Indian competitor institution, Nālandā University. The UF significance of the Nanhai academy is illustrated by a visit to the facilities, soon before their inauguration, by the head of the Hainan UFWD (UFWD, September 2017).

According to Yinshun, the goal of this endeavor is to offer the world a “Sinified Buddhist system” (Xinhua, September 2017). Although primarily religious in nature, this system is not insulated from political concerns. A roundtable Yinshun organized reached what he described as a “consensus” that “the South China Sea is Chinese” and “China has already become the center of the world's Buddhism,” hopefully opening “a leading role in the world’s religious development” (Caijing, December 2017). On social media, he praised Xi’s report to the 19th Party congress—which he claimed to have copied out by hand—as “contemporary Buddhist scripture” (China Digital Times, December 2017).

PRC Policy towards Mongolian Buddhism Globally

A branch of Tibetan Buddhism is the main religion in Mongolia. Although explicit UFWD statements on global policy toward Mongolian Buddhism are scarce, a set of goals can be distilled from available sources. Last year, the Party Secretary at the Tibetan Academy of Buddhism in Beijing advocated helping “countries and territories along the ‘Belt and Road’” satisfy their demand for religious specialists and scripture,” showcasing “the results of our Party and country’s ethnic and religious policies” (UFWD, June 2017).

An earlier set of policy recommendations called on China to take the lead in coordinating the establishment of a unified system for the search, recognition and final announcement of incarnate lamas in the three countries. The article deals with the reincarnation of the Jebtsundamba Khutugtu, Mongolia’s most senior lama, a potential source of friction with the PRC [2]. These recommendations were published pseudonymously by a Hong Kong think tank established by the PRC energy company CEFC (HKEJ, November 2011) [3]. Former SARA head Ye Xiaowen (叶小文), a senior figure in religious policy involved in the Panchen Lama reincarnation process, was associated with the
Recent interactions between Mongolian monasteries and PRC-based organizations are consistent with these goals, in some cases directly implementing them.

‘One World, One Buddha, One China’

The UF system appears to be exploiting divisions among Mongolian clergy. Some of Mongolia’s most important Buddhist monasteries have had contacts with the UFWD, SARA and CBA. These include the Amarbayasgalant, the country’s main place of Dorje Shugden worship, and the Ikh Khüree monastery in Ulaanbaatar, whose abbot Sanjdoj is noted for a bitter rivalry with the capital’s main monastery [4]. Sanjdoj has criticized the Dalai Lama’s visits to Mongolia. In 2016, he regretted the Dalai Lama had been invited “without the approval” of Mongolia’s “neighbors” (time.mn, November 2016). His views on the visit were quoted approvingly by PRC state media (Huanqiu, Nov 2016).

A media outlet close to Sanjdoj has provided positive coverage of contacts with Chinese Buddhism and the 19th Party Congress (control.mn; March 2017, August 2016, October 2017); its editor-in-chief attended the CCP Propaganda Department’s Chinese Tibet Development Forum 2016 (chinanews, July 2016). Sanjdoj was also present when a foundation established by the Bank of China donated 9 million tugriks ($4,866 at that time) for another monastery (中蒙文化教育暨社会发展基金, Jan 2015).

Sain Nomuun monastery in Nalaikh, one of Ulaanbaatar’s poorest districts, provides another excellent example of the UF in action. Implementing the vision laid out by its Party secretary, the Tibetan Academy of Buddhism (藏语系高级佛学院) in Beijing received its first contingent of foreign trainee monks in November. The monks came from the Sain Nomuun monastery. Led by Nergüi, their abbot, they were received by officials from the SARA, the CBA, and the PRC-sanctioned Panchen Lama (UFWD, 藏语系高级佛学院, November 2017) [5].

Nergüi and Yinshun have exchanged visits. In June 2017, Yinshun visited the Sain Nomuun monastery, and, according to a news item posted to the UFWD website, Nergüi requested he send teachers to the Sain Nomuun (UFWD, June 2017). Members of Nergüi’s family, who run a company that helped build the monastery, were present at some of these meetings in China and Mongolia. The family belongs to the local business and political elite, including a former minister and the current chairman of the Ulaanbaatar city council.

Yinshun has also appointed Nergüi a guest professor at the Nanhai Academy (南海佛学院, June 2017) In November, Nergüi was at Yinshun’s South China Sea Buddhism Roundtable in Shenzhen, attended by then-SARA director Wang Zuo’an (SARA, Nov 2017). Wang is now a vice-director of the UFWD.

The roundtable’s declaration brims with Xi-speak: “New Era”, “Maritime Silk Road”, “Community of Shared Destiny”. A Hainan CBA social-media account carried a Chinese version of Nergüi’s speech (Weixin, 2017). It praises Xi’s geopolitical initiatives and derives the PRC’s territorial ambitions from theological principles: “We don’t have many Buddhas, but just one Buddha, one world ... All lamas and Buddhist countries support the One-China Policy. We only have one Buddha, we support the One-China Policy.”[6]

Conclusion

Interactions by PRC entities with Mongolian Buddhism tend to occur through vehicles with clear UF links, including SARA and UFWD officials, part of an application of UF policies to global Buddhism that has yielded early successes. Entities linked to the PRC party-state have cultivated local religious figures inside Mongolia and exploited divisions within the local Buddhist community, investing the PRC’s ‘religious capital’ to supply artifacts and train monks. The Sain Nomuun monastery’s endorsement of the PRC’s territorial ambitions and global Buddhist foray have also
helped create a channel to Mongolia’s political and business elite.

These successes should not be overstated. The UF tends to operate in a low-profile fashion, which can limit the propaganda value of its successes, both in Mongolia and elsewhere. Prevalent anti-Chinese sentiment inside Mongolia also naturally limits the soft-power potential of these contacts; PRC links have the potential to hurt a lama more than they help his PRC partners.

Despite this, the Mongolian example shows a UF system bent on exploiting the religious capital acquired through the appropriation of Tibetan Buddhism. While the limitations of its Mongolian instantiation are defined by local conditions, the expansion of the domain of UF work to include religious groups abroad is of global significance. Speculatively, Xi’s potentially lifelong rule could give UF cadres enough time to venture beyond the neo-Qing model and apply similar tactics to religions other than Buddhism.

Miguel Martin, who frequently writes under the penname Jichang Lulu, is an independent researcher with an interest in China’s activities in the Arctic and the United Front. Martin’s blog frequently is the first to break news on these subjects in English. Follow him on Twitter at @jichanglulu.

Notes

[1] Two Chinese projects have been proposed to develop Lumbini as a tourist and religious complex, first by an NGO led by businessman Xiao Wunan 肖武男, then by the CBA itself (WSJ, Aug 2013; rediff, May 2016).

[2] The legitimacy of the ninth incarnation, who died in 2012 in Ulaanbaatar, is a delicate topic in the PRC. As prescribed by the Comintern, Mongolia had forbidden further reincarnations after the eighth died in 1924, but a ninth was secretly recognized by the Dalai Lama. China discreetly protested his first visit to Mongolia in 1999 (refworld, 2003). A tenth reincarnation has been identified, although, as the Dalai Lama stated during a 2016 visit to Ulaanbaatar, the reincarnation is too young to be enthroned. Although Beijing vehemently condemned the visit, and retaliated against Mongolia economically and diplomatically, it refrained from public discussion of the reincarnation issue, only “hoping” Mongolia would handle the affair “autonomously,” a coded reference to its desire that the reincarnation’s enthronement and training take place without Dharamsala’s involvement (PRC embassy to Mongolia, Jan 2017).

[3] CEFC, which has recently run into financial difficulties, has known links to the PLA and has been involved in global influence activities (South China Sea Conversations, Jun 2013; Project 2049, Oct 2013; Sinopsis, Jun 2018).


[5] In 1995, the PRC government took into custody the boy recognized as 11th Panchen Lama by the Dalai Lama and enthroned a reincarnation of its own choice. Nothing is known of the boy’s subsequently.
The PRC demands other countries uphold a “One-China Policy,” which it understands as acquiescing to its claim to sovereignty over Taiwan.

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**Chinese Media and Latin America: “Borrowing a Boat” to Set Sail**

*By Sam Geall and Robert Soutar*

“Though we’re geographically distant, we’re all developing countries and the progress and well-being of our populations are common objectives,” Liu Biwei, vice-president of the China Public Diplomacy Association, a soft-power-focused organisation, said on opening the China-Latin America & Caribbean Press Center in Beijing last month ([Andina], May 22, 2018).

The center, which brings journalists from Latin American media outlets to China for cultural immersion programs lasting five to six months, was heralded in 2016 by President Xi Jinping, who said on a visit to Peru that parties must “share the fruits of cooperation so that the vessel of common destiny benefits its people” ([Chinese Embassy in Peru, November 22, 2016]) [1]. Careful observers might ask, however, to whom the vessel belongs. “Borrowing a boat to go out on the sea” (借船出海) is a phrase used to describe the provision of Chinese news to foreign language media, one of several new mechanisms—including the Press Center, and bilateral and multilateral cooperation agreements—through which China’s state media apparatus is extending its reach into Latin America.

While the economic and political aspects of the China-Latin America relationship have attracted substantial attention over the past decade, the media aspect of this burgeoning partnership has been largely overlooked, despite its important implications for the changing dynamics of power in the region. Latin American scholars have noted China’s expressions of soft or ‘sharp’ power—seeking to penetrate informational spheres with positive news that supports its foreign policy agenda. But it is necessary to look to recent developments in China to understand this new phenomenon.

“Correct Guidance of Public Opinion”

Media is high on the policy agenda for CCP General Secretary Xi Jinping. The National People’s Congress in March saw the consolidation of the government apparatus for media, news and publishing regulation, under the Central Propaganda Department “in order to strengthen the concentrated and unified management of news and public opinion work” ([Xinhua], March 21), tightening the Party’s grip over media considerably.

Xi also sees media as an important component of foreign policy, similar to his immediate predecessor, Hu Jintao, who enshrined “cultural soft power” (文化软实力) as an official instrument of PRC foreign policy. Xi has only deepened this approach, telling members of the CCP Politburo in 2014 that: “China should be portrayed as ... an Eastern power with good government, a developed economy, cultural prosperity, national unity, and beautiful scenery” ([People’s Daily], January 1, 2014).

In 2014, Xi said that China would create a “new-type mainstream media” (新型主流媒体) that is “powerful, influential, and credible”, a pronouncement which would eventually lead to the 2018 consolidation of China Central Television, China Radio International, and China National Radio into the “Voice of China”. This is but a part of the build-up of state media’s overseas reach over the past decade, which itself reflects the increased importance of “discourse power” (话语权) as an element of PRC foreign policy [3].

In other national contexts, these strategies have sparked public debate. In Australia, for example, purported CCP influence operations, exposed by media and counterintelligence investigations, have led to heated debate over
alleged censorship and the merits of a recently passed counter-inference law (BBC, March 8 2018). Media exchanges and paid supplements have also been scrutinised in this context: Last year, senior Australian journalists met with Chinese counterparts in a series of events co-organized by the CCP's All China Journalists Association (ABC, June 11 2017); Fairfax Media runs China Watch, a supplement produced by the state-run China Daily, monthly in The Sydney Morning Herald, The Age and Australian Financial Review (Sydney Morning Herald, 31 May 2016).

In Europe, a number of foreign policy analysts have noted the ways in which the PRC has sought to build support for its policy agendas through both overt and covert means. The CCP’s strategy has seen it fund think-tanks and media training, as well as paid inserts in high-profile European newspapers (including Handelsblatt, The Telegraph, and El País), in a strategy it calls “borrowing foreign newspapers” (借用海外报刊) [4][5]. In the UK, the People’s Daily also has a copy-sharing arrangement with the right-wing tabloid Daily Mail (Guardian, August 12 2016). In the United States, meanwhile, the debate about PRC influence has often centered on the presence of Confucius Institutes within universities (Reuters, March 21 2018), but also includes media supplements, most notably the China Watch supplement in the Washington Post (The Atlantic, February 3 2011).

While other scholars have begun to note the proliferation of Chinese state print and online media in Latin America, there has been less analysis or public debate, thus far, about the impacts of China’s soft power and influence efforts there as compared to other regions. Yet there is much worth scrutinizing.

**Media Partnerships**

Since Xi Jinping became president in 2013, several Latin American countries have established or upgraded their diplomatic ties with China. A number of them, including Argentina, Brazil, Chile, Ecuador, Mexico, Peru, and Venezuela, have seen ties with China elevated to the level of “Comprehensive Strategic Partnership”—the phrase the PRC uses to describe its most important bilateral relationships.

Media cooperation is often an important element of these partnerships. For example, the Comprehensive Strategic Partnership between Mexico and China, signed by President Xi and counterpart Enrique Peña Nieto in 2013, outlines “intensifying exchanges by young students, academics, media and sport” as desired outcomes.

China’s 2016 Comprehensive Strategic Partnership with Peru included cultural exchanges and media cooperation as a means to meet broader development goals, pledging to amplify exchanges in areas including culture, education, science and technology, and media and communications to “achieve greater and faster development.”

The equivalent document co-signed by China and the government of Venezuela in 2014 expressly referenced the potential of media and other parts of the cultural sphere to influence opinion in favour of China and Venezuela’s joint diplomacy. On the 40th anniversary of the establishment of Sino-Venezuelan diplomatic ties, both parties indicated that the aim of media cooperation is to “strengthen public support for bilateral relations.”

To the same end, in June 2018 China and Bolivia signed a strategic partnership agreement in which they too pledged to increase exchanges in media and other parts of the cultural sphere in order to “foster mutual understanding and consolidate the popular basis Sino-Bolivian friendship.” Media cooperation with Bolivia has also taken the form of participation in a media chiefs summit in Beijing last year, at which Cecilia Dorado, an editor of the Santa Cruz-based paper El Deber proposed to build a network of Chinese and Latin American journalists.

In Argentina, these mechanisms have been even more high-profile. In addition to the inclusion of a media component in the two countries’ Comprehensive Strategic Partnership agreement, in 2015 Argentina’s communications ministry signed a separate accord with China’s State Administration for Press, Publishing, Radio, Film and Television (now
State Administration of Radio and Television, SART; [Profesional, February 4 2015]. This along with another deal signed between the Argentine Senate and PRC state news agency Xinhua, point to a concerted effort to control the flow of information and messages that Argentine audiences receive about China (Xinhua, November 14 2015).

In 2016, following these agreements, the state-run China Daily launched its paid China Watch supplement in the regional Mendoza, Santa Fe and Entre Ríos editions of the newspaper Diario Uno. The supplement also now features in La Capital (Rosario) and in the finance publication Cronista. On launching the bi-weekly supplement, China Daily’s deputy editor Gao Anning said the launch was “based on mutual political trust, mutual benefit in trade and mutual learning” (Diario Uno, 2016). People’s Daily also has a cooperation agreement with the independent daily La Nación (La Nación, June 14 2015).

Media cooperation is also a feature of multilateral agreements such as the CELAC-China 2015-2019 Cooperation Plan, an agreement between 33 Western Hemispheric nations and China. CELAC-China is the “main channel for overall cooperation” with Latin America, according to Chinese foreign minister Wang Yi. Among its provisions are mechanisms through which to advance media cooperation, including the exchange of resident correspondents, conducting joint interviews, and training media personnel in order to “build new media capacity”. The agreement also pledges to “welcome the landing of Chinese radio and Television programs” in the region.

The media element looks set to grow within the CELAC-China. In an interview at the CELAC-China ministerial forum in Santiago, Chile, in January 2018, Alicia Bárcena, the head of the UN's Economic Commission for Latin America and the Caribbean (ECLAC/CEPAL) said the forum would likely establish a separate platform for media, that would function on a par with its platforms for cooperation on business, infrastructure, agriculture, academia, political parties, and science and technology (Dialogo Chino, January 23).

Prior to the Santiago meeting, op-eds authored by China’s foreign minister Wang Yi appeared in Venezuelan national El Universal and Peru’s El Peruano celebrating the potential for fruitful development cooperation at the forum (El Universal, Jan 18; El Peruano, Jan 18). On the same day, similarly worded articles attributed to the Chinese ambassadors to Colombia and Mexico appeared in major national newspapers in each country (El Tiempo, January 18; El Financiero, January 18).

Conclusion

Such “joint construction” will, no doubt, continue—and clearly many will judge such partnerships to offer important co-benefits. It is clear, however, that there has been little scrutiny in these discussions of the “borrowing a boat” strategy, or of the significant emphasis on media cooperation, exchange and the embedding of Chinese state media content into Latin American media, as an element of such new relations.

With so-called “development finance” from Chinese policy banks to Latin America since the turn of the century surpassing US$150 billion in 2017—significantly more than from any other multilateral institution—Latin American media professionals are keen to report one of the contemporary region’s biggest stories (The Dialogue, March 8). Yet restricted by linguistic and cultural barriers, they have so far obligingly facilitated advances from Chinese media organs.

As unfolding debates in other national contexts show, including ones that have sown profound mistrust, such practices are integral to understanding contemporary China’s influence strategies. Understanding how these might affect perceptions and relationships in the region is important, as China’s bilateral and multilateral relations with Latin America will only continue to expand.
Notes

[1] The language of ‘common destiny’ has become one of Xi’s favorite phrases for encapsulating the rise of a new, Sino-led international order (China Brief, February 26).


[3]话语权 can also translated as “right to speak”. In the CCP’s view, one’s ‘right to speak’ is commensurate with one’s level of influence. The term is therefore best understood as the expression of a desire for greater influence on the international stage.
